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PARIS FOR RWALLER

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TAGS: PREL PGOV PTER EFIN MARR LE SY

SUBJECT: LEBANON: CAMPAIGN ISSUE: THE ELECTIONS AND THE
FOREIGN AID DEBATE

REF: A. BEIRUT 605
 1B. BEIRUT 598

Classified By: Ambassador Michele J. Sison for reasons 1.4
(b) and (d).

SUMMARY

11. (C) Both the March 14 coalition and the opposition are seeking to capitalize on the possible economic impact of the international community's reactions to the June 7 parliamentary elections to gain votes. March 14 leaders have floated the idea that an opposition-led Lebanese government would face Hamas-style international isolation, arguing to voters that only a March 14 majority government can guarantee continued international assistance for Lebanon.

12. (C) In response, the Hizballah-led opposition has worked to quell apprehension that international economic assistance to Lebanon will diminish if the opposition wins on June 7. Opposition leaders have pointed to public statements from abroad to show international aid will continue despite election results. Following Vice President Biden's May 22 visit to Lebanon, Hizballah SYG Hassan Nasrallah and his allies claimed Iran would provide assistance to the Lebanese Armed Forces if U.S. military assistance were lost. End summary.

ECONOMIC THREATS FOR
CAMPAIGN GAINS

13. (C) March 14 leaders have sought to foment uncertainty that a negative international, and especially U.S., reaction to an opposition victory in the June 7 elections could hurt the Lebanese economy and diminish international aid to the country. March 14 leaders have highlighted the broad international backing that March 14 receives to argue that only a future March 14 majority would enjoy the same level of support. March 14 leaders Walid Jumblatt and Saad Hariri have also claimed publicly that an opposition victory would have a negative impact on the Lebanese economy.

14. (C) In response, the opposition has sought to reassure

voters that international economic assistance to Lebanon and confidence in the Lebanese economy will continue if the opposition wins the June 7 elections. Opposition figures have consistently refuted March 14's assertion that the upcoming elections are "fateful," in part to reassure Lebanese voters that the international community will not abandon Lebanon. Opposition Christian leader Michel Aoun, in response to March 14 claims that a victory by the opposition will affect U.S. and EU assistance to Lebanon, has claimed to voters that the United States "would be the first" government to hold discussions with an opposition majority government and joked that "maybe China will have compassion towards Lebanon."

HIZBALLAH REFUTES POSSIBILITY
OF INTERNATIONAL ISOLATION

¶15. (C) Meanwhile, Hizballah has pointed to its interactions with the financial community and donor countries to demonstrate to Lebanese voters that a March 8 government would be accepted internationally. Opposition supporters pointed to the Hizballah meeting with IMF representatives during the Fund's February-March mission to Lebanon to argue that IMF support would continue if the opposition wins June ¶17. (Note: The IMF, with a \$114 million program, acknowledged that it met Hizballah officials as part of its normal interaction with a range of political parties, but reiterated that future IMF support will depend on a decision by the Fund's executive board, of which the U.S. is a member. The IMF has denied a "Financial Times" story that it had

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reached an agreement with Hizballah to continue IMF programs under a Hizballah-led government. The IMF team explained that it had met with Abed Al Halim Fadlallah, then deputy director of an economic research center close to Hizballah, to explain IMF activities and gather support for economic reforms, and with Minister of Labor Fneish to discuss labor market and social issues. End note.) Meanwhile, World Bank representatives in Lebanon have told econoffs that the World Bank will deal with any democratically-elected government.

¶16. (C) Hizballah, Aoun, and their allies have capitalized on statements from abroad indicating international acceptance of a democratically-elected opposition-led government in Lebanon. Russian Foreign Minister Sergei Lavrov made such a statement in his late May visit to Beirut. The recently-arrived Saudi ambassador told us privately (ref A) that the Kingdom will deal equally with all political parties. French statements that Paris will deal with Hizballah as it does with all other political parties if the group and its allies win a majority on June 7 have been widely covered in the media, as well as the EU's position that it makes no distinction between Hizballah and other political parties in Lebanon and will work with any democratically elected government. All these bolster the opposition's claims.

SUPPORT TO THE ARMY WILL CONTINUE

¶17. (C) The opposition also continues to reassure voters that international assistance to the Lebanese Armed Forces (LAF) will continue, and even improve, in the case of an opposition victory on June 7. Following Vice President Biden's May 22 visit to Lebanon, during which the Vice President highlighted extensive U.S. military aid to the LAF, Hizballah SYG Hassan Nasrallah said via video feed to a May 27 rally in Baalbeck that Iran is ready to give the LAF military equipment, including an air-defense system, to target Israeli aircraft. He clarified that Lebanon had not yet asked for arms from Iran, and Iran had not yet offered, but that Iran is willing to help "any Lebanese government" that requests military aid. Nasrallah dismissed U.S. aid to the LAF, saying that Lebanon needed air defense systems to confront Israel. Urging people

to vote for the opposition, he implied that only his coalition would work to make the LAF a "strong and armed army capable of defending Lebanon."

COMMENT

18. (C) Since 2005, there has been broad-based international confidence in the government led by the March 14 coalition. This has provided Lebanon with significant funds from abroad, beneficial relationships with international financial organizations, and a positive investment atmosphere. This support has helped Lebanon's economy weather political storms well. Particularly crucial was the Paris III assistance from international donors following the 2006 war with Israel.

19. (C) Several Lebanese bankers recently told Treasury Undersecretary Stuart Levey (ref B) that bankers worry a negative U.S. reaction to an opposition victory could potentially affect bank deposits and capital inflows. Political instability or delayed cabinet formation could hurt investments and tourism. Some wonder whether Arab and Gulf deposits in Lebanese commercial banks -- deposited following the onset of the financial crisis because of the perceived safety of Lebanese banks -- will leave the country after an opposition electoral victory. March 14 is continuing to play up the possible effect of an opposition win on the economy in the final days before the Sunday, June 7 election. Finally, Vice President Biden's statement that "...we (the United States) will evaluate the shape of our assistance programs based on the composition of the new government and the policies it advocates" continues to be widely discussed. End comment.

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